

Message Text

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ACTION STR-07

INFO OCT-01 ISO-00 STRE-00 EUR-12 IO-13 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 PA-01 CTME-00 AID-05
SS-15 ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15
NSCE-00 SSO-00 ICAE-00 INRE-00 JUSE-00 /110 W
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FM USMISSION GENEVA
TO SECSTATE WASHDC IMMEDIATE 2674
INFO AMEMBASSY HELSINKI
AMEMBASSY STOCKHOLM

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USMTN

ACTION STR
PASS AGRICULTURE
STR PASS CODEL
STOCKHOLM FOR PETTIPAW

E.O. 11652: N/A
TAGS: MTN, ETRD
SUBJECT: FINNISH OFFERS ON CANNED FRUIT AND NEW EXCISE
TAX ON SUGAR-ADDED

1. SUMMARY: FINLAND HAS INDICATED THAT IT WILL BE
WILLING TO MAKE A TARIFF OFFER ON CANNED PEACHES AND
CANNED FRUIT COCKTAIL CONTAINING ADDED-SUGAR OF THE SAME
MAGNITUDE AS THEIR INITIAL OFFER ON THOSE PRODUCTS NOT
CONTAINING ADDED-SUGAR (22.5 TO 9.4 PERCENT). FINNISH
DEL HAS JUST INFORMED US, HOWEVER, THAT FINLAND WILL BE
APPLYING AFTER FIRST OF AUGUST AN EXCISE TAX ON THE SUGAR
CONTENT IN CANNED FRUIT TO PROTECT ITS DOMESTIC SUGAR
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INDUSTRY. MTN DEL RAISED OBJECTIONS TO THE TAX WITH
RESPECT TO IMPLICATIONS FOR THEIR TARIFF OFFER AND TOLD
FINNISH DEL THAT POSSIBLE US OFFERS ON VODKA, CHEESE ET
AL WOULD BE CONSIDERED IN LIGHT OF VALUE OF FINNISH
OFFERS WHICH APPEAR TO BE SIGNIFICANTLY DIMINISHED BY
THE TAX. FINNISH DEL INDICATED A WILLINGNESS TO EXPLORE
WAYS OF MINIMIZING THE ADVERSE IMPACT OF THE TAX ON US

EXPORTS, AND SEVERAL ALTERNATIVES ARE DISCUSSED BELOW.
END SUMMARY.

2. FINNISH MTN DEL (PULLINEN) HAS INDICATED TO US MTN DEL (BALE AND DRAZEK) THAT FINLAND WOULD BE IN A POSITION TO OFFER A TARIFF CUT ON CANNED PEACHES AND FRUIT COCKTAIL CONTAINING ADDED SUGAR FROM 22.5 PERCENT TO ABOUT 9.4 PERCENT (TARIFF NOS. 2006.601 AND 2006.901). HE HAS TOLD US IN LAST SEVERAL DAYS HOWEVER, THAT TO PROTECT ITS DOMESTIC SUGAR INDUSTRY FINLAND WILL BE IMPOSING AN EXCISE TAX ON SUGAR STARTING ON AUGUST FIRST OF THIS YEAR. THE FINNISH EXCISE TAX SYSTEM IS DESIGNED TO HELP PROTECT DOMESTIC "BASIC" AGRICULTURAL PRODUCTS AND COVERS PROCESSED PRODUCTS CONTAINING THOSE "BASIC" PRODUCTS AS INGREDIENTS. THE SYSTEM HAS NOT UP TIL NOW APPLIED TO SUGAR BUT, BECAUSE OF THE CURRENT MARKET SITUATION FOR SUGAR, FINLAND FEELS COMPELLED TO IMPOSE AN EXCISE TAX TO MAKE UP THE DIFFERENCE BETWEEN THE WORLD PRICE AND THE DOMESTIC PRICE OF SUGAR. THIS DIFFERENCE IS CALCULATED TO BE FM 1.85/KG (ABOUT \$.20/LB).

3. FOR CANNED FRUIT AND FRUIT JUICE CONTAINING ADDED SUGAR THE EXCISE TAX WILL BE IMPOSED ON THE BASIS OF A 60 PERCENT SUGAR-ADDED CONTENT. THUS THE EXCISE TAX ON CANNED PEACHES AND FRUIT COCKTAIL THUS WILL BE FM 1.11/KG OR ABOUT \$.12/LB. PULLINEN ADMITS THAT 60 PERCENT IS A LIMITED OFFICIAL USE

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WHOLLY UNREALISTIC FIGURE AND SAYS THAT IT MIGHT BE LOWERED STARTING IN JANUARY, BUT HE CLAIMS THAT A CHANGE IS NOT POSSIBLE BEFORE THE TAX GOES INTO EFFECT IN AUGUST. HE SAID THE PROBLEM EVIDENTLY STEMMED FROM OVER-REACTION BY CUSTOMS OFFICIALS TO FRUIT JUICE IMPORTS FROM EASTERN EUROPEAN COUNTRIES CONTAINING HIGH LEVELS OF SUGAR.

4. WE POINTED OUT THE IMPLICATIONS THIS ACTION WOULD HAVE ON THE NEGOTIATIONS, PARTICULARLY SINCE THE DUTY REDUCTIONS OFFERED WOULD NOT BE IMPLEMENTED BEFORE THE TAX TAKES EFFECT, AND EVEN THEN THEY WILL BE MORE THAN OFFSET BY THE INCREASED TAXES. THE AVE OF THE EXCISE TAX ON CANNED PEACHES VALUED AT \$.25/LB WOULD BE 48 PERCENT, AND ON CANNED PEACHES VALUED AT \$.50/LB THE AVE WOULD BE 24 PERCENT.

5. PULLINEN SAID HE UNDERSTOOD OUR CONCERNS AND SUGGESTED SEVERAL WAYS OF MINIMIZING THE PROBLEM. IN THE SHORT TERM WHILE BOTH THE EXCISE TAX BASED ON 60 PERCENT SUGAR CONTENT AND THE CURRENT DUTY IS BEING APPLIED, US EXPORTERS AND FINNISH IMPORTERS COULD ARRANGE TO HAVE THE EXCISE TAX PARTIALLY REBATED BASED ON THE DIFFERENCE BET-

WEEN THE ACTUAL SUGAR CONTENT OF THE US PRODUCT AND THE
CONCOCTED 60 PERCENT CONTENT. AFTER DISCUSSING THIS
WITH FINNISH CUSTOMS OFFICIALS, HE THOUGHT THIS COULD BE
ARRANGED. IN THE LONGER TERM, HE SUGGESTED THAT IF THE
U.S. PROVIDE HIM WITH AN INDICATION OF THE LEVEL OF ADDED
SUGAR IN U.S. CANNED FRUITS, (THE PERCENT, HE SAID,
SHOULD BE CALCULATED ON THE ENTIRE NET WEIGHT OF THE
PRODUCT, NOT JUST THE WEIGHT OF THE SYRUP) AND IF THE
LEVEL WERE LOW ENOUGH, FINLAND COULD ESTABLISH A CATEGORY
FOR CANNED FRUIT WITH A SUGAR-ADDED CONTENT OF THAT PER-
CENT OR LESS WHICH WOULD BE EXEMPT FROM THE TAX. HE
FELT HE COULD ARGUE THAT A LOW SUGAR-ADDED CONTENT WOULD
NOT JEOPARDIZE DOMESTIC SUGAR PRODUCERS, PARTICULARLY

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SINCE IT IS AN INGREDIENT IN A PRODUCT FINLAND DOES NOT
PRODUCE.

6. WE INDICATED THAT THE EXCISE TAX DEVELOPMENTS AS
WELL AS HIS SUGGESTIONS WOULD BE REPORTED TO WASHINGTON
FOR CONSIDERATION BUT NOTED THAT THE PROBLEM MIGHT HAVE
IMPLICATIONS IN ADDITION TO THE NEGATIVE IMPACT IT

WOULD HAVE ON THE MTN. PULLINEN REPLIED THAT MANY COUNTRIES APPLY EXCISE TAXES ON SUGAR AND FINLAND IS WILLING TO LOOK FOR WAYS TO NEGATE THE IMPACT ON PRODUCTS FROM THE U.S. HE REMARKED THAT FINLAND ALSO IMPORTS CANNED FRUIT FROM ISRAEL, SOUTH AFRICA, AND PHILIPPINES AND NONE OF THOSE COUNTRIES HAD YET MADE SATISFACTORY OFFERS TO FINLAND IN THE MTN.
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7. MTN DEL HAS DISCUSSED THIS ISSUE WITH THE AGRICULTURAL ATTACHE'S OFFICE IN STOCKHOLM WHICH HAS DONE SOME FURTHER CHECKING AND WILL ALSO BE SUBMITTING A REPORT.

8. ACTION REQUESTED: MTN DEL REQUESTS WASHINGTON RE-ACTION AND VIEWS. GATT LEGALITY SHOULD BE EXAMINED IN LIGHT OF GATT BINDING OF THE CURRENT DUTY AND THE DISCRIMINATION EFFECT OF APPLYING THE SAME TAX ON ALL PRODUCTS REGARDLESS OF THEIR ACTUAL SUGAR-ADDED CONTENT. (PULLINEN ARGUED THE REVERSE: THAT THE TAX WOULD HAVE TO BE THE SAME FOR ALL PRODUCTS TO AVOID DISCRIMINATION.) IN ANY CASE, WASHINGTON SHOULD ALSO EXAMINE THE DESIRABILITY OF PROVIDING AN INDICATION OF THE LEVELS OF ADDED SUGAR IN US CANNED FRUIT PRODUCTS PER FINNISH SUGGESTION IN PARA 5. ON THE ONE HAND THIS MIGHT INDICATE A TACIT ACCEPTANCE OF THE TAX. ON THE OTHER HAND, IF U.S. PRODUCTS GENERALLY HAVE LOWER ADDED SUGAR LEVELS, AN EXEMPTION FROM THE TAX STARTING IN JANUARY WOULD PUT US IN A MUCH BETTER COMPETITIVE POSITION VIS-A-VIS OTHER EXPORTERS."

9. DRAFTED BY DRAZEK. MCDONALD

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Message Attributes

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